

Weekly Insights 12 May 2023: GCC's largest economies to benefit from non-oil sector output even as oil remains main revenue source

Saudi Arabia & Abu Dhabi GDP growth. Dubai PMI & tourism. Oman and Saudi fiscal balances. Surge in Middle East FDI projects.

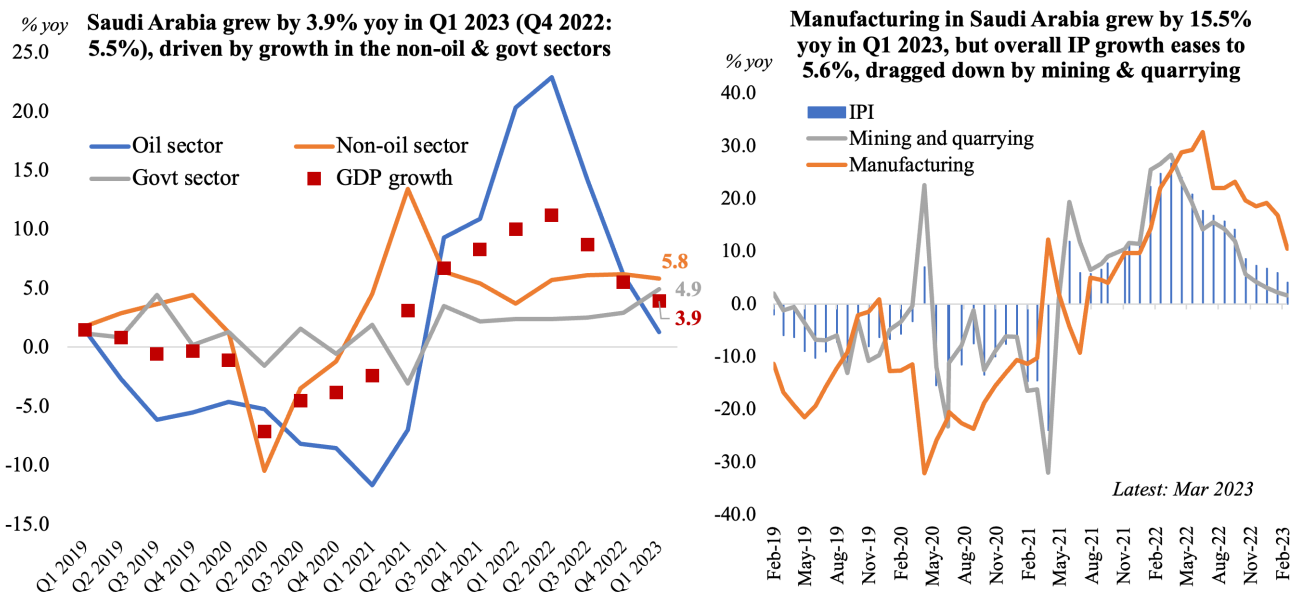
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1. Saudi Arabia grew by 3.9% yoy in Q1 2023, aided by non-oil sector growth as oil sector contribution wanes

- **Real GDP in Saudi Arabia grew by 3.9% in Q1 2023** according to initial estimates. Growth was significantly lower compared to the 5.4% in Q4 2022 and 10% in Q1 2022. This was largely due to the **decline in oil sector growth** (+1.3%) given the oil production cuts and lower oil prices. However, the **non-oil sector GDP has remained resilient**, rising by 5.8% in Q1 following a 6.2% uptick in Q4 2022. The strong project pipeline given mega and giga projects will support growth in the coming quarters (including via government activity, which grew by 4.9% in Q1 2023).

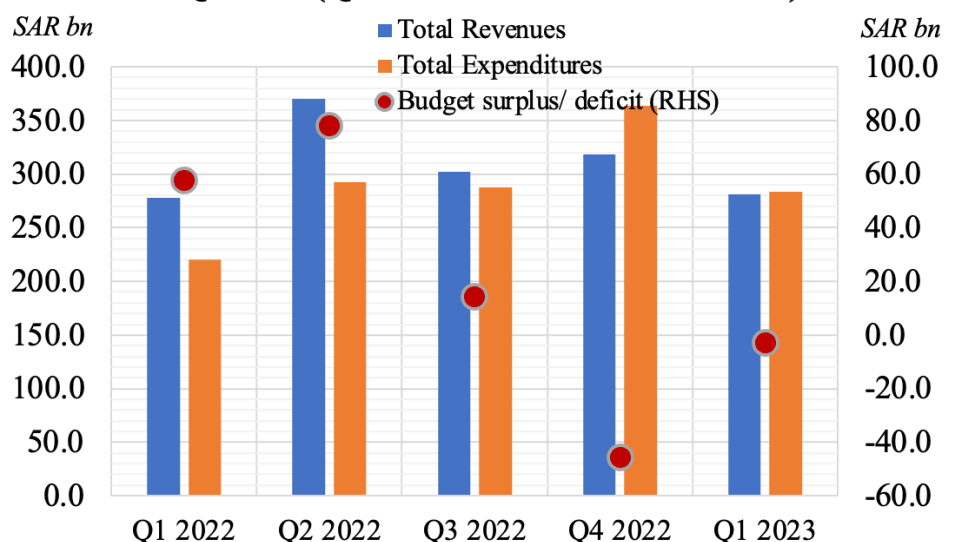
- **Evidence of non-oil sector activity is also evident from manufacturing growth:** in Q1, manufacturing grew by 15.5% though the overall industrial production index was dragged down by the dip in mining and quarrying activity (2.3% in Q1 2023 vs 21.2% in Q1 2022 and 7.3% in Q4 2022). If PMI is considered as a leading indicator, prospects are strong given that in Apr, new orders rose at the fastest rate since September 2014 supported by domestic demand.



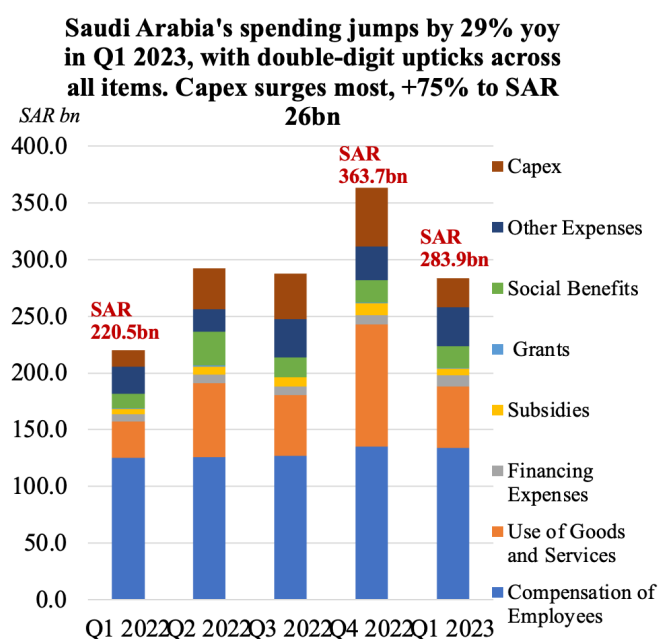
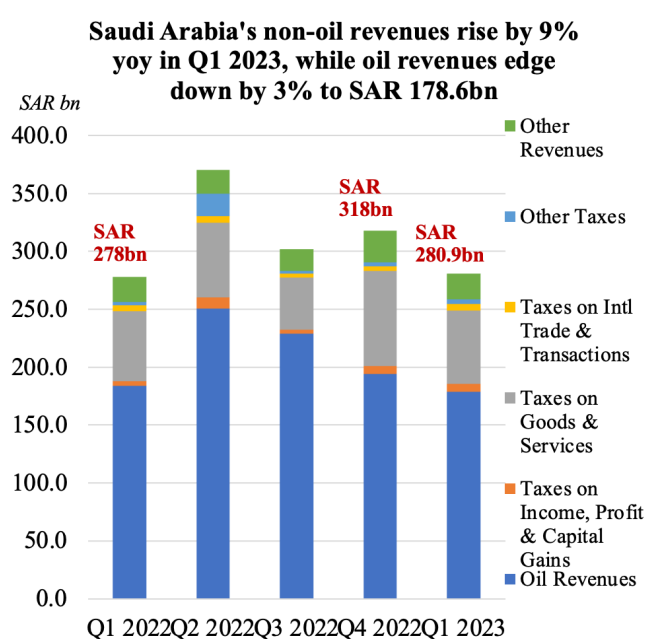
Source: General Authority for Statistics, Saudi Arabia. Charts by Nasser Suidi & Associates.

2. Saudi Arabia's faster spending pace in Q1 2023 results in a deficit of SAR 2.9bn

Saudi Arabia posts a budget deficit of SAR 2.9bn in Q1 2023 (Q4 2022: deficit of SAR 45.7bn)



- Saudi clocked in a **1% yoy uptick in total revenues** (with **non-oil revenues up by 9%**) to SAR 280.9bn in Q1. Oil revenues fell by 3% while tax on goods & services (largest component within taxes) rose by 4% to SAR 63.1bn.
- **Spending rose by a faster 29% in yoy terms**, with all items other than compensation of employees reporting a double-digit increase. **Compensation**, which **accounted for 47% of total spending**, rose by 7% to SAR 134.07bn. Capex posted the largest increase, up by 75% to SAR 26bn.



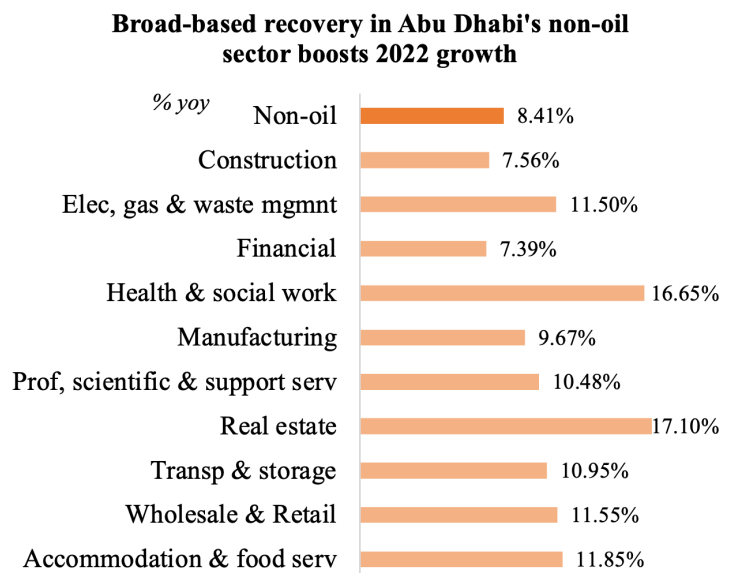
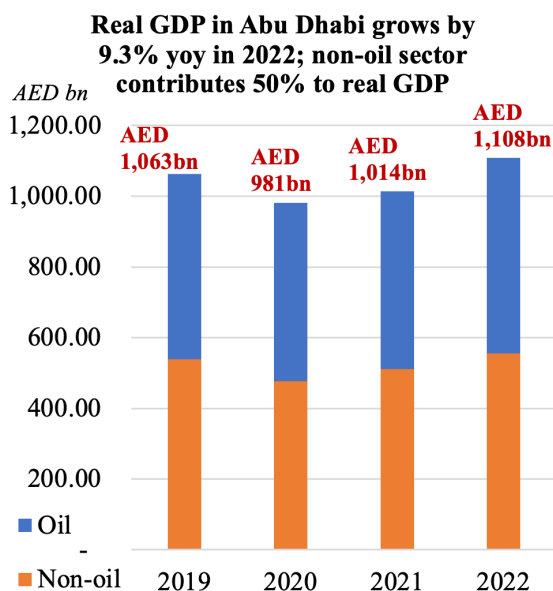
Source: Saudi Arabia's Ministry of Finance. Charts by Nasser Saidi & Associates

3. Abu Dhabi's real GDP grows by 9.3% in 2022, with the non-oil sector contributing 50%

- **Abu Dhabi's economy grew by 9.3% in 2022** (2021: 7.2%), supported by growth in both oil (+10.2% vs 2021's 0.2% drop) and non-oil sectors (8.4% vs 2021's 7.2% uptick). The contribution of the non-oil sector highlights the success of its diversification efforts.
- **Growth in manufacturing last year (+9.7% yoy) underscores the emirate's Abu Dhabi Industrial Strategy** which was launched in June last year. The sector also contributed 8.2% to overall GDP growth. Other fast-

growing sectors which had a high contribution to growth included **construction** (7.6% yoy growth) and **financial activities** (7.4%). Covid-affected sectors posted double-digit growth, indicating a broad-based recovery: wholesale & retail trade (11.6%), accommodation (11.9%) and transport (10.95%) among others.

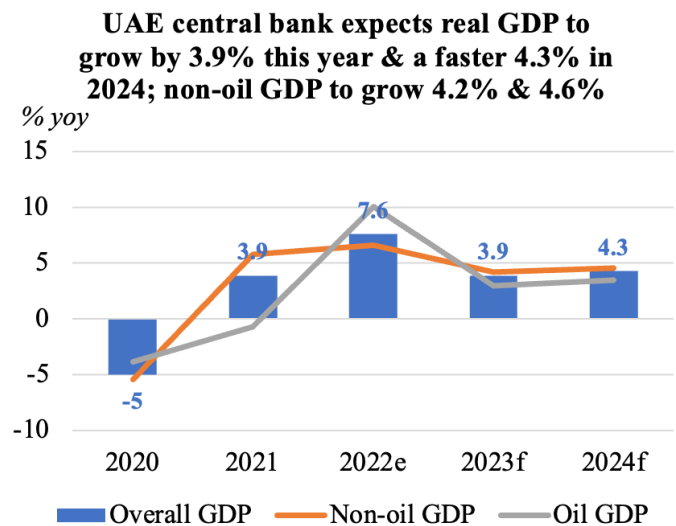
- The recent announcement of ADGM's expansion plans, focus on new sectors (AI, clean energy etc) alongside the UAE's plans to increase non-oil exports (given multiple trade agreements) and attract a high-skilled workforce is likely to support overall growth in the near-term.



Source: Statistics Centre - Abu Dhabi. Charts by Nasser Saidi & Associates

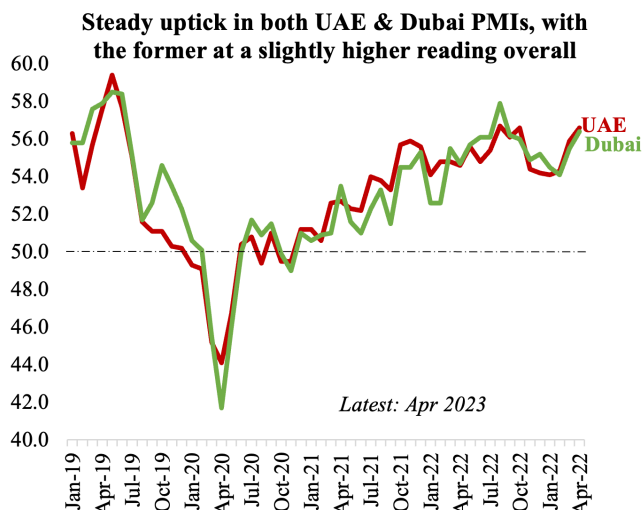
4. UAE estimated to grow by 3.9% in 2023, supported by non-oil

sector



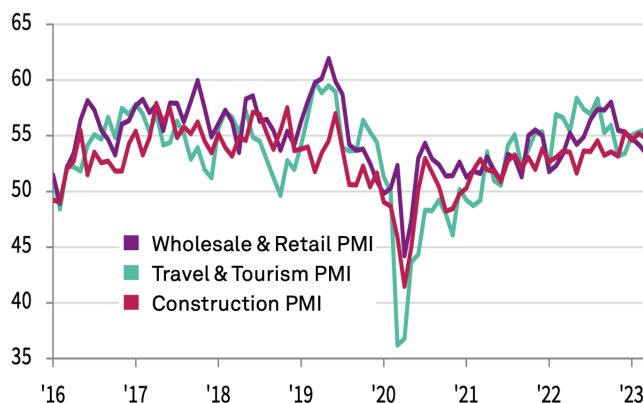
Source: UAE Central Bank.

- **UAE central bank**, in its Annual Report 2022, forecasts GDP to grow by 3.9% and 4.3% in 2023 and 2024, slower than 2022's 7.6% gain. OPEC+ production cuts are reflected in the **sharp decline in oil GDP**.
- **Non-oil GDP is expected to remain resilient in 2023-24** (though lower than 2022's estimated 6.6%): this is also evident in the PMI readings for this year. **UAE and Dubai PMI** averaged 55.2 and 55.1 respectively in Jan-Apr, both faster than in the same period a year ago.
- Latest **Dubai PMI for Apr rose to an 8-month high**, supported by new orders rising at the second-quickest rate in nearly four years. Travel & tourism sector gains rose to an 8-month high as well, with respondents also reporting a decline in costs (supporting sales in the future).



Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

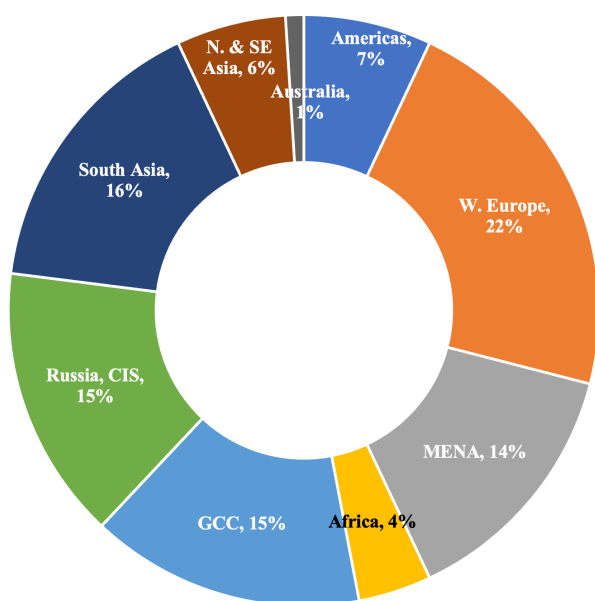
Dubai non-oil private sector activity at 8-month high thanks to improvement in sales led by travel & tourism and wholesale & retail at 8- & 6-month highs respectively



Source: S&P Global.

5. In Q1 2023, Dubai International Airport (which is connected to 234 destinations) welcomed ~21.3mn passengers (+55.8% yoy & 95.6% of pre-pandemic levels). Dubai welcomed 4.67mn international visitors during Q1 (vs Q1 2019: 4.75mn). In terms of source nations, India, Russia & UK topped the list while Chinese tourists jumped 239% yoy to 94k visitors.

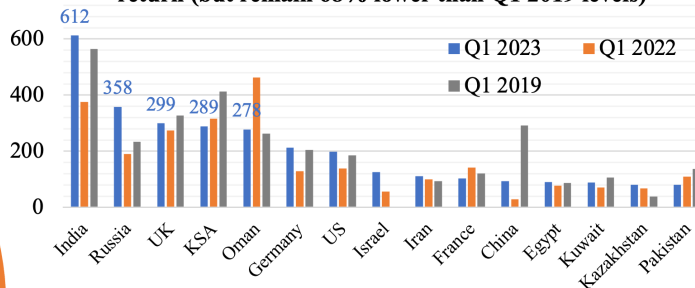
Dubai receives 4.67mn international visitors in Q1 2023, just under Q1 2019's 4.75mn



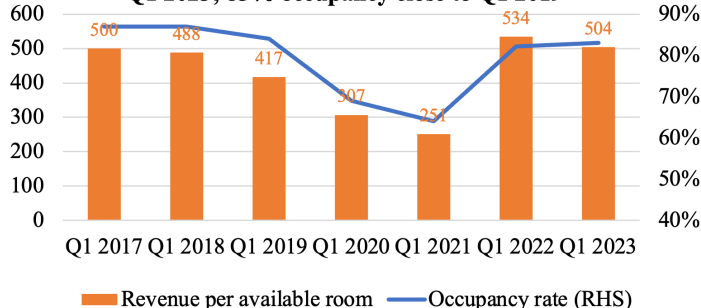
Source: Dubai Department of Economy and Tourism. Charts by Nasser Saidi & Associates

Note: Revenue figures are reflective of reported hotel data including residents and hoppers

Top 5 source nations of visitors into Dubai account for ~40% of total in Q1 2023; visitors from China return (but remain 68% lower than Q1 2019 levels)



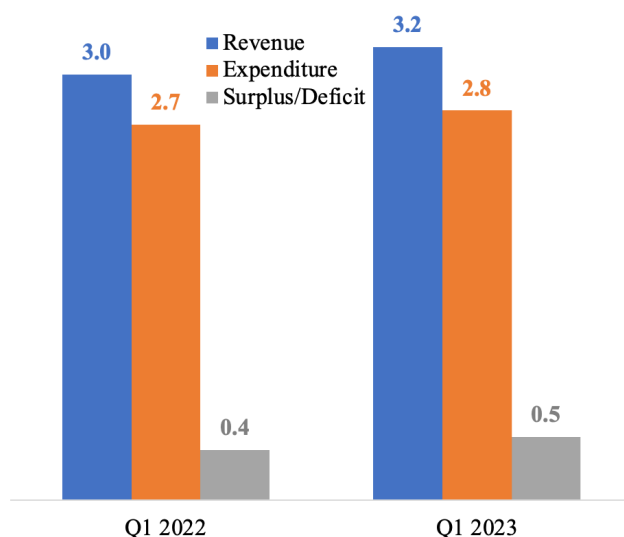
Dubai's revenue per available room remains high in Q1 2023; 83% occupancy close to Q1 2019



6. Oil revenues enable Oman to post a fiscal surplus in Q1 2023

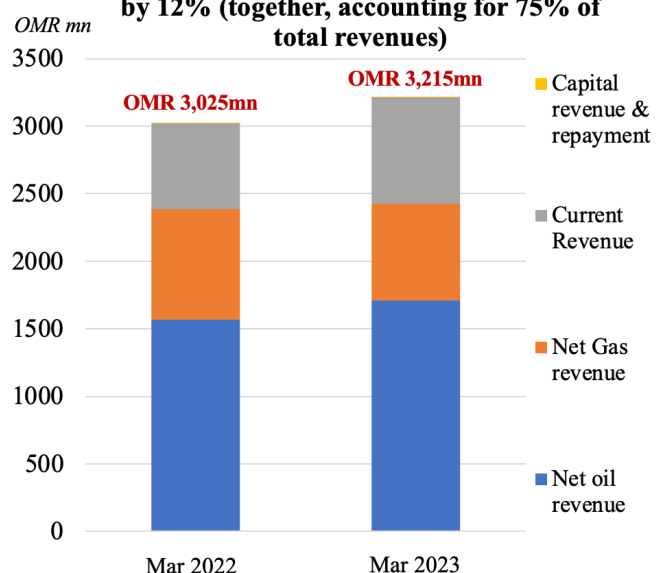
- Increased production and higher oil prices supported **Oman post a budget surplus of OMR 450mn at end-Q1 2023**: total revenue was up by 6% yoy while spending grew by 4%.
- **Net oil revenue touched OMR 1.7bn in Q1 2023**, up 9% yoy, as oil prices averaged USD 85 per barrel (higher than the USD 78 in Q1 2022). In spite of **net gas revenues down by 12% yoy to OMR 720mn**, O&G revenues accounted for 88% of total public revenue, making it more vulnerable to volatility in the oil & gas markets.
- The **IMF estimates a fiscal breakeven oil price of USD 72.2 for Oman this year**. However, this does not consider the latest OPEC+ decision wherein Oman agreed to a voluntary oil output cut of 40,000 barrels per day from May.
- The Ministry of Finance disclosed that more than OMR 325mn had been paid to the private sector; a further OMR 1.1bn was repaid in loans, bringing total public debt to OMR 16.6bn (USD 43.1bn) at end-Q1 2023.

Oman: Revenue grew by 6% yoy in Q1 2023, and spending at a slower pace of 4%, registering a surplus of OMR 0.45bn



Source: Oman's Ministry of Finance. Charts by Nasser Saidi & Associates

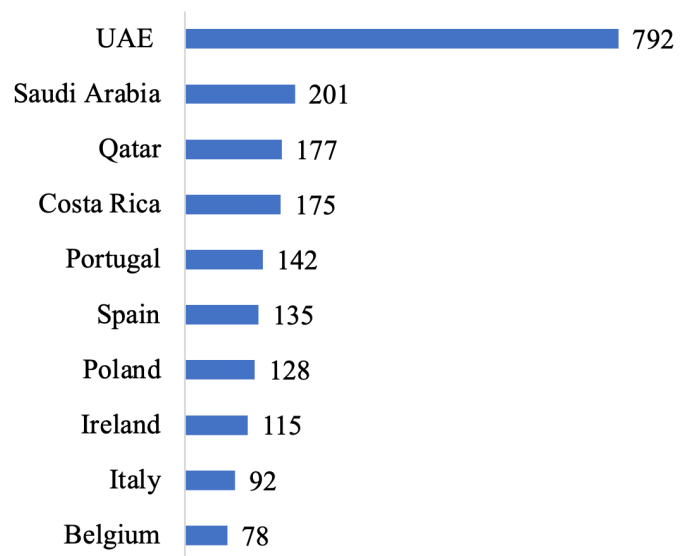
Oman's revenues rose in Q1 2023: 9% yoy jump in net oil revenues while net gas rev fell by 12% (together, accounting for 75% of total revenues)



7. GCC economies lead the investment rebound globally & in the

Middle East & Africa region

Change in number of FDI projects by destination country, Q2 2017-Q1 2020 vs. Q2 2020-Q1 2023



Source: fDi Markets.

- According to fDi Markets, **UAE, Saudi Arabia and Qatar** were the top 3 nations globally with the **largest increase in the number of FDI projects** for the period since the outbreak of Covid (compared to 3 years prior to that). **Dubai and Abu Dhabi attracted 1469 & 273 projects** respectively in the 3 years starting Q2 2020.
- Interestingly, as opposed to funds flowing largely into the real estate/ construction sectors, **62.5% of Dubai's foreign investments were in tech, business and financial services.**
- A separate report issued during the Annual Investment Summit in the UAE found that **Saudi Arabia, UAE, South Africa, Egypt and Qatar were the top five countries** attracting FDI into the Middle East and Africa in 2022. Saudi attracted funds into tourism, Egypt to its renewable energy programs and Dubai into software and IT services, business and professional services (BPS) and financial services.
- **US accounted for ~25% of FDI into the Middle East** with investments primarily in software, tourism and BPS projects. **UAE was the 5th largest investor into the Middle East and Africa region** (and only regional investor within the top 10 source markets), accounting

for 5.4% of proportion of FDI.

- **By project value, top FDI projects in the Middle East were US H2 Industries USD 1.4bn waste-to-hydrogen plant in Oman and UK's J. O. Steel Holdings USD 865mn manufacturing plant in Saudi Arabia.**

Top FDI destination countries, Middle East & Africa, 2022		
	Number of Projects	Share
UAE	700 (+16% yoy)	29.1%
Saudi Arabia	242 (-0.4%)	10.0%
South Africa	239 (+6.2%)	9.9%
Egypt	162 (+30.6%)	6.7%
Qatar	141 (+33%)	5.9%
Top FDI destination cities, Middle East & Africa, 2022		
Dubai	575 (+28.3% yoy)	23.9%
Riyadh	131 (+7.4%)	5.4%
Doha	130 (+56.6%)	5.4%
Abu Dhabi	85 (-7.6%)	3.5%
Cairo	60 (+11.1%)	2.5%

Source: "Greenfield FDI into Middle East and Africa 2022", May 2023", GlobalData's FDI Projects Database

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